



**First Interim Budget Report  
(2014-2015)**

***-Executive Summary-***  
**December 15, 2015**

# VINELAND SCHOOL DISTRICT

## First Interim Budget Report (2014-2015)

### *-Executive Summary-* December 15, 2015

California Education Code Section 42130 requires all public school districts to annually file at least two interim financial reports with their local county superintendent of schools and the California Department of Education. The First Interim Budget Report covers the financial and budgetary status of each school district for the period July 1 to October 31. The Second Interim Budget Report covers the financial and budgetary status of each school district for the period of July 1 to January 31.

Interim budget reports serve as “snapshots” of the district’s financial condition at a particular point in time. Multiyear budgets are highly dependent upon projected state funding, which in-turn is dependent upon the health of the state economy and sufficient collection of property, income and sales taxes. As a result, interim budget reports are anchored on projections provided by the county and state, as well as local expenditure decisions.

The Governing Board of each district must certify whether their budget is able to meet their financial obligations for the remainder of the current fiscal year and two subsequent years. Certifications are positive, qualified, or negative. A positive certification means the district will be able to meet its financial obligations for the current year and two subsequent years. A qualified certification means the district *may not* meet its financial obligations, while a negative certification indicates the district *will not* meet its fiscal obligations.

### **Ending Fund Balance**

The ending fund balance is the ongoing amount of money the District has unexpended in its budget and is an indicator of the difference between the District’s revenues and expenditures. The ending fund balance from one year becomes the starting balance for the next. It is important to compare the fund balance figures at the same time each year because they can fluctuate throughout the year. The fund balance is not only a reflection of the current budget year, but it also includes the “bottom line” rolled over at the end of previous fiscal years after all accounts are reconciled.

The ending fund balance is comprised of the Non-spendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance. The Non-spendable Fund Balance reflects assets not in spendable form, either because they will never convert to cash (such as prepaid items) or must remain intact pursuant to legal or contractual requirements (such as the principal of a permanent endowment). The Restricted Fund Balance includes resources subject to externally imposed and legally enforceable constraints imposed either by external resource providers or by law through constitutional provisions, or enabling legislation and the committed fund balance, set aside funds pursuant to a stabilization arrangement more formal than the reserve for economic uncertainties recommended by the Criteria and Standards for fiscal solvency or other minimum fund balance policy, and funds committed for purposes other than stabilization arrangements. The Committed Fund Balance includes stabilization arrangements and other commitments, which represent resources whose use is constrained by limitations self-imposed by the District. The Assigned Fund Balance represents resources intended for specific purposes, but for which the constraints do not meet the criteria to be reported as restricted or committed as well as funds representing other assignments. Finally, the Unassigned Fund Balance is divided into a reserve for economic uncertainties, or the set aside pursuant to a minimum fund balance policy recommended by the Criteria and Standards for fiscal solvency, as well as additional reserve amounts established pursuant to local policy and the residual fund balance in excess of amounts reported in the non-spendable, restricted, committed, or assigned fund balance classifications.

### **Certification of the First Interim Budget Report**

Based on best available current information and budgetary assumptions, this First Interim Budget Report has been submitted to the Board of Trustees as a *POSITIVE* certification for the 2014-2015 and two subsequent fiscal years of 2015-2016 and 2016-2017.

### **Disclaimer**

The following is based on the most recent fiscal information and is subject to change. Any changes will be recast in the Second Interim Budget Report in March.

## Summary of All Funds

### General Funds

This is the chief operating fund for the District. It is used to fund the general operations of the District. All transactions except those required or permitted by law to be in another fund are accounted for in this fund. The General Fund is broken into two components: unrestricted and restricted

- *Unrestricted-* used to account for those projects and activities that are funded with unrestricted revenues.
- *Restricted-* used to account for those projects and activities that are funded by external revenue sources that are statutorily restricted or restricted by the donor to specific purposes.

### Capital Funds

- *Deferred Maintenance Fund-* used to pay for major repair and/or replacement of District property.
- *Building Fund -* used to account for major repairs, construction, and/or acquisition of major capital facilities and the proceeds of general obligation bonds.
- *County School Facilities Fund-* used to account for the School Facilities Program grant award for modernization and new construction for sites.
- *Bond Interest and Redemption-* used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Additionally, this fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- *Capital Facilities Fund-* used to account for monies received from fees levied on developers or other agencies as a condition of approving developments. Expenditures are restricted to capital projects related to housing students.

### Other Funds

- *Cafeteria Fund-* used to account for revenues received and expenditures made to operate the District's cafeterias.
- *Home-to-School Transportation-* used to account for resources committed for the acquisition, rehabilitation or replacement of pupil transportation equipment.
- *Special Reserve Fund for Capital Outlay-* used to hold capital project reserves.
- *Special Reserve Fund for Other than Capital Outlay Projects-* used to accumulate mandated cost reimbursements to the District or for funds from other sources not required to be used for capital outlay purposes.
- *Special Reserve Fund for Post-Employment Benefits-* used to account for future payments of health and welfare benefits.
- *Impounds-* used to hold tax revenue for liability contingency.

All Governmental Funds	Beginning Fund Balance (First Interim)	Projected Revenues/ Transfers In	Projected Expenditures/ Transfers Out	Projected Ending Fund Balance
<b>General Funds</b>	<b>\$735,162</b>	<b>\$7,588,628</b>	<b>\$7,896,188</b>	<b>\$427,602</b>
<i>Fund 01- Unrestricted Fund</i>	\$407,165	\$5,798,837	\$5,778,401	\$427,602
<i>Fund 01- Restricted Fund</i>	\$327,996	\$1,789,791	\$2,117,787	\$0
<b>Capital Funds</b>	<b>\$1,930,009</b>	<b>\$0</b>	<b>\$250,000</b>	<b>\$1,680,009</b>
<i>Fund 14- Deferred Maintenance Fund</i>	\$410,961	\$0	\$250,000	\$160,961
<i>Fund 21- Building Fund</i>	\$1,445,560	\$0	\$0	\$1,445,560
<i>Fund 25- Capital Facilities Fund</i>	\$27,408	\$0	\$0	\$27,408
<i>Fund 35- County School Facilities Fund</i>	\$14,752	\$0	\$0	\$14,752
<i>Fund 40- Special Reserve Fund for Capital Outlay</i>	\$31,328	\$0	\$0	\$31,328
<b>Other Funds</b>	<b>\$1,159,920</b>	<b>\$845,553</b>	<b>\$677,930</b>	<b>\$1,327,543</b>
<i>Fund 13- Cafeteria Fund</i>	\$661,421	\$579,065	\$579,065	\$661,421
<i>Fund 17- Special Reserve Fund Other Than Capital Outlay</i>	\$315,000	\$0	\$0	\$315,000
<i>Fund 20- Special Reserve Fund for Post Employment Benefits</i>	\$183,499	\$266,488	\$98,865	\$351,122
<i>Fund 77- Impounds</i>	\$0	\$0	\$0	\$0

**Multi-Year Projection**

<b>Unrestricted/Restricted Funds (Fund 01)</b>	<b>Adopted Budget</b>	<b>Approved Operating Budget</b>	<b>Projected Year Totals (First Interim)</b>	<b>Projected Budget (Year 2)</b>	<b>Projected Budget (Year 3)</b>
Beginning Fund Balance	\$796,516	\$796,516	\$735,162	\$427,602	\$427,602
<i>Audit Adjustments</i>	\$0	\$0	\$0	\$0	\$0
<i>Other Restatements</i>	\$0	\$0	\$0	\$0	\$0
Adjusted Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenue/Other Financing Sources	\$7,540,519	\$7,540,519	\$7,588,628	\$7,963,396	\$8,438,905
Expenditures/Other Outgo	\$7,377,723	\$7,377,723	\$7,629,699	\$7,750,896	\$8,099,840
<b>Surplus/Deficit</b>	\$162,797	\$162,797	<b>(\$41,072)</b>	\$212,501	\$339,065
Other Financing Sources/Uses	\$0	<b>(\$430,888)</b>	<b>(\$266,488)</b>	<b>(\$212,501)</b>	<b>(\$339,065)</b>
<i>Interfund Transfer</i>	\$0	<b>(\$430,888)</b>	<b>(\$266,488)</b>	<b>(\$212,501)</b>	<b>(\$339,065)</b>
<i>Other Sources/Uses</i>	\$0	\$0	\$0	\$0	\$0
<i>Contributions</i>	\$0	\$0	\$0	\$0	\$0
Increase/Decrease in Fund Balance	\$162,797	<b>(\$268,091)</b>	<b>(\$307,560)</b>	\$0	\$0
Ending Fund Balance	\$959,313	\$528,425	\$427,602	\$427,602	\$427,602
<b><u>Components of the Ending Fund Balance</u></b>					
Non-spendable Fund Balance	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Restricted Fund Balance	\$83,683	\$83,683	\$0	\$0	\$0
Committed Fund Balance	\$0	\$0	\$0	\$0	\$0
<i>Stabilization Arrangements</i>	\$0	\$0	\$0	\$0	\$0
<i>Other Commitments</i>	\$0	\$0	\$0	\$0	\$0
Assigned Fund Balance	\$0	\$0	\$109,754	\$107,066	\$88,046
Unassigned Fund Balance	\$503,716	\$503,755	\$315,848	\$318,536	\$337,556
<i>Reserve for Economic Uncertainties</i>	\$503,716	\$503,755	\$315,848	\$318,536	\$337,556
<i>Unassigned/Unappropriated</i>	\$0	\$0	\$0	\$0	\$0

<b>Unrestricted Funds (Fund 01)</b>	<b>Adopted Budget</b>	<b>Approved Operating Budget</b>	<b>Projected Year Totals (First Interim)</b>	<b>Projected Budget (Year 2)</b>	<b>Projected Budget (Year 3)</b>
Beginning Fund Balance	\$407,165	\$407,165	\$407,165	\$427,602	\$427,602
<i>Audit Adjustments</i>	\$0	\$0	\$0	\$0	\$0
<i>Other Restatements</i>	\$0	\$0	\$0	\$0	\$0
Adjusted Beginning Fund Balance	\$407,165	\$407,165	\$407,165	\$427,602	\$427,602
Revenue/Other Financing Sources	\$6,140,996	\$6,140,996	\$6,197,276	\$6,565,698	\$7,034,869
Expenditures/Other Outgo	\$5,077,869	\$5,077,869	\$5,511,912	\$5,954,758	\$6,297,364
<b>Surplus/Deficit</b>	\$1,063,128	\$1,063,128	\$685,364	\$610,940	\$737,504
Other Financing Sources	<b>(\$594,662)</b>	<b>(\$1,025,550)</b>	<b>(\$664,928)</b>	<b>(\$610,940)</b>	<b>(\$737,504)</b>
<i>Interfund Transfer</i>	\$0	<b>(\$430,888)</b>	<b>(\$266,488)</b>	<b>(\$212,501)</b>	<b>(\$339,065)</b>
<i>Other Sources/Uses</i>	\$0	\$0	\$0	\$0	\$0
<i>Contributions</i>	<b>(\$594,662)</b>	<b>(\$594,662)</b>	<b>(\$398,439)</b>	<b>(\$398,439)</b>	<b>(\$398,439)</b>
Increase/Decrease in Fund Balance	\$468,466	\$37,578	\$20,436	\$0	\$0
Ending Fund Balance	\$875,631	\$444,743	\$427,602	\$427,602	\$427,602

<b>Restricted Funds (Fund 01)</b>	<b>Adopted Budget</b>	<b>Approved Operating Budget</b>	<b>Projected Year Totals (First Interim)</b>	<b>Projected Budget (Year 2)</b>	<b>Projected Budget (Year 3)</b>
Beginning Fund Balance	\$389,351	\$389,351	\$327,996	\$0	\$0
<i>Audit Adjustments</i>	\$0	\$0	\$0	\$0	\$0
<i>Other Restatements</i>	\$0	\$0	\$0	\$0	\$0
Adjusted Beginning Fund Balance	\$389,351	\$389,351	\$327,996	\$0	\$0
Revenue/Other Financing Sources	\$1,399,523	\$1,399,523	\$1,391,351	\$1,397,698	\$1,404,037
Expenditures/Other Outgo	\$2,299,854	\$2,299,854	\$2,117,787	\$1,796,138	\$1,802,476
<b>Surplus/Deficit</b>	<b>(\$900,331)</b>	<b>(\$900,331)</b>	<b>(\$726,436)</b>	<b>(\$398,439)</b>	<b>(\$398,439)</b>
Other Financing Sources	\$594,662	\$594,662	\$398,439	\$398,439	\$398,439
<i>Interfund Transfer</i>	\$0	\$0	\$0	\$0	\$0
<i>Other Sources/Uses</i>	\$0	\$0	\$0	\$0	\$0
<i>Contributions</i>	\$594,662	\$594,662	\$398,439	\$398,439	\$398,439
Increase/Decrease in Fund Balance	<b>(\$305,669)</b>	<b>(\$305,669)</b>	<b>(\$327,997)</b>	\$0	\$0
Ending Fund Balance	\$83,682	\$83,682	\$0	\$0	\$0

Reserve	Adopted Budget	Approved Operating Budget	Projected Year Totals (First Interim)	Projected Budget (Year 2)	Projected Budget (Year 3)
Total Expenditures	\$7,377,723	\$7,377,723	\$7,896,188	\$7,963,396	\$8,438,905
Total Available Reserves (\$) - Fund 01	\$503,716	\$503,716	\$315,848	\$318,536	\$337,556
Total Available Reserves (\$) - Fund 17	\$0	\$0	\$0	\$0	\$0
Total Available Reserve (%)	6.83%	6.83%	4.00%	4.00%	4.00%
Reserve Standard (\$)	\$295,109	\$295,109	\$315,848	\$318,536	\$337,556
Reserve Standard (%)	4.0%	4.0%	4.0%	4.0%	4.0%
Difference	\$208,607	\$208,607	\$0	\$0	\$0
<b><i>Components of the Reserve</i></b>					
Stabilization Arrangements	\$0	\$0	\$0	\$0	\$0
Reserve for Economic Uncertainties	\$503,716	\$503,716	\$315,848	\$318,536	\$337,556
Unassigned/Unappropriated	\$0	\$0	\$0	\$0	\$0
Negative EFB in Restricted Resources	\$0	\$0	\$0	\$0	\$0

**Budget Assumptions  
Revenues and Expenditures**

Revenues By Funding Source (Fund 01)	Adopted Budget	Approved Operating Budget	Actuals to Date (October 31)	Projected Year Totals (First Interim)	Difference
State Revenue	\$5,977,758	\$5,977,758	\$1,606,030	\$6,024,198	\$46,440
Federal Revenue	\$670,433	\$670,433	\$226,549	\$763,945	\$93,512
Other State Revenue	\$504,802	\$504,802	\$202,511	\$412,958	(\$91,844)
Other Local Revenue	\$387,526	\$387,526	\$70,321	\$387,526	\$0
<b>Total Revenues</b>	<b>\$7,540,519</b>	<b>\$7,540,519</b>	<b>\$2,105,410</b>	<b>\$7,588,628</b>	<b>\$48,109</b>

Expenditures By Object Classification (Fund 01)	Adopted Budget	Approved Operating Budget	Actuals to Date (October 31)	Projected Year Totals (First Interim)	Difference
Certificated Salaries	\$3,010,367	\$3,010,367	\$888,331	\$3,100,678	\$90,311
Classified Salaries	\$891,725	\$891,725	\$231,934	\$927,345	\$35,620
Employee Benefits	\$1,556,408	\$1,556,408	\$464,798	\$1,557,860	\$1,452
Books and Supplies	\$719,481	\$719,481	\$78,265	\$797,553	\$78,072
Services and Other Operating Expenditures	\$826,677	\$826,677	\$188,416	\$828,071	\$1,394
Capital Outlay	\$1,579	\$1,579	\$0	\$1,579	\$0
Other Outgo	\$371,485	\$371,485	\$28,091	\$416,613	\$45,128
Other Financing Uses	\$0	\$0	\$0	\$266,488	\$266,488
<b>Total Expenditures</b>	<b>\$7,377,722</b>	<b>\$7,377,722</b>	<b>\$1,879,835</b>	<b>\$7,896,188</b>	<b>\$518,466</b>

## Budget Considerations

### ***Situational Guidance and Multiyear Projections***

The fiscal operating environment for districts remain somewhat uncertain, and each district must address its own unique risk factors in determining budget priorities and creating multiyear projections. Factors contributing to an unpredictable operating environment exist on both the revenue and expenditure sides of the budget.

The following factors may cause future revenue uncertainty:

- The precise level of Local Control Funding Formula (LCFF) gap funding provided in future years is subject to economic conditions as well as political decisions by the Governor and the Legislature.
- The dependence of Local Control Funding Formula (LCFF) entitlements on shifting unduplicated eligible pupil counts as well as ADA, which adds a level of complexity to revenue forecasting that was not present under the revenue limit system.
- While most of the 2013 sequestration cuts to Federal revenues appear to have been restored for the current fiscal year, sequestration provisions remain in effect through 2023.
- The future of state funding for facilities is in limbo due to the absence of bond funding for the School Facilities Program.

Future expenditure uncertainty may arise from the following:

- Possible need to shift supplemental and concentration grant funding so that it is “principally directed towards” providing increased or improved services to specific pupil subgroups as specified in the proposed Local Control Funding Formula (LCFF) expenditure regulations.
- Changing expenditure requirements as a result of Local Control Accountability Plan (LCAP) development.
- Continued changes in legislative mandates including increased costs associated with retirement plans (STRS, PERS, and OPEB), potential penalties or other costs associated with the Affordable Care Act (ACA), and new leave costs associated with the Healthy Families Act.
- Pressure on labor costs that are complicated by the fact that districts in the same labor market may receive significantly different year over year funding increases.
- Costs associated with maintaining functions and programs that were previously funded through categorical programs such as deferred maintenance or adult education.
- Requirements to restore routine restricted maintenance to the 3% minimum level in 2015-2016.
- Shifts in cost structures associated with County Office of Education or district operated regional programs in the absence of the revenue limit transfer mechanism and previously funded categorical programs, which are shifting to fee for service programs.

The uncertain operating environment reflected above is coupled with demands for greater transparency, local accountability under the Local Control Accountability Plan (LCAP), and with increased expectations from all sides due to the perception of the availability of more funding.

### ***Projecting Revenues (Local Control Funding Formula (LCFF))***

Full funding of the LCFF will take eight years (2020-2021). Until then, increases in funding will be as the State budget appropriates funding for that purpose. There is no statutory guaranteed increase in any given year until full implementation is reached.

Furthermore, there are potential restrictions on the increase in LCFF revenue based on the “sunsetting” of the Proposition 30 tax initiatives. Also, during the transition period from the previous funding model to the Local Control Funding Formula (LCFF), district funding will not directly increase by the cost-of-living adjustment. Rather, the funding increases year-over-year will be the result of the Local Control Funding Formula (LCFF) percentage closure factor applied to a district’s funding gap (the difference between the 2014-2015 Local Control Funding Formula (LCFF) target and the prior-year funding, adjusted for changes in average daily attendance (ADA)). This gap funding reflects the amount of funding necessary to maintain purchasing power for the Local Control Funding Formula (LCFF) on a statewide basis; however, the amounts provided to individual districts will vary, depending upon their percentage of targeted (unduplicated) students and grade spans.

For the purpose of calculating multiyear projections, the District used the latest Local Control Funding Formula (LCFF) gap closure percentages reported by the Department of Finance that show the amount of funding necessary to maintain purchasing power for the Local Control Funding Formula (LCFF) statewide. The District developed its multiyear projections that based on the reasonable and available information provided by the Kern County Office of Education through the *Common Message*.

While further Local Control Funding Formula (LCFF) revenue growth is projected in 2015-2016 and 2016-2017, the new funding will not be sufficient to meet all the competing demands for increased expenditures. Funding for most districts will remain below 2007-2008 levels. Districts will need to prioritize new expenditures based on the Local Control Accountability Plan (LCAP), while still maintaining fiscal flexibility and solvency.

The keys to protecting fiscal flexibility and solvency in an uncertain environment include:

- Maintaining adequate reserves to allow for unanticipated circumstances.
- Maintaining fiscal flexibility by limiting commitments to future increased expenditures based on projections of future revenue growth, and/or establishing contingencies that allow expenditure plans to be changed as needed.

Recommendations for creating multiyear projections that will align with the Local Control Accountability Plan (LCAP) include:

- Gathering and documenting the best information available about all the known factors that will impact future revenues and expenditures.
- Making reasonable, supportable, and conservative assumptions about how these factors will impact future revenues and expenditures, which includes modeling varying assumptions and scenarios.
- Using the best tools available to model the impact of these assumptions on future ending fund balances and cash flows.
- Making sure expenditure plans are aligned with the educational mission of the district as delineated in the Local Control Accountability Plan (LCAP).
- Maintaining fiscal flexibility for possible unanticipated changes by:
  - Maintaining adequate reserves.
  - Building in contingencies in expenditure plans, including collective bargaining agreements to the extent possible.
  - Not using one-time resources for ongoing commitments.
  - Not locking in ongoing spending commitments that the district can only afford based on aggressive future projections.
- Clearly documenting, communicating and explaining assumptions to stakeholders including preparation to respond in a reasoned, transparent, and logically justified manner if assumptions are challenged.

***Projecting Expenditures (Multi-Year Projection Risk Factors)***

In developing the budget the District had to include new expenditure assumptions associated with implementing locally established priorities as documented in the Local Control Accountability Plan (LCAP), including costs associated with:

- Providing increased or improved services associated with Minimum Proportional Percentage (MPP) requirements.
- Meeting adequate progress toward class size requirements for the Local Control Funding Formula (LCFF) K-3 Grade Span Adjustment (GSA).
- Maintaining programs that were previously funded with categorical funding and now must be funded with unrestricted funds if they are to continue.

Additionally, the District must now consider additional expenditures:

- Increases in the State Teacher Retirement System (STRS) contribution rates of 9.50%, 11.10%, and 12.70%.
- Increases in Public Employee Retirement System (PERS) contribution rates of 11.77%, 12.60%, and 15.00%.
- Increased administrative costs associated with the Affordable Care Act (ACA) including staff time and possible penalty fines and taxes.
- Possible increased costs associated with the Affordable Care Act (ACA) requirements to extend coverage to all full-time equivalent employees.
- Costs associated with implementing Common Core State Standards (CCSS) and Smarter Balanced Assessments Consortium (SBAC).
- Requirements to restore routine restricted maintenance to the 3% minimum level in 2015-2016.
- Long-term maintenance costs and facility repairs.
- Costs associated with meeting maintenance of effort requirements and shifting cost structures for regionally provided programs under Local Control Funding Formula (LCFF).

***Deficit Spending***

Although the District has been deficit spending since the 2009 school year, it has eliminated deficit spending for the current year, as well as the two out years. This is due in large part to increased revenues generated through the Local Control Funding Formula (LCFF) and the influx of funds through the Education Protection Account (EPA), which funds several certificated teaching positions. As the Education Protection Account (EPA) is based on the passage of Proposition 30, and the resulting tax increases, which will “sunset” in 2016 (sales tax) and 2018 (personal income tax), the District should be cautious regarding this elimination of deficit spending and resulting surplus and continue the process of rebuilding the budget to ensure long-term fiscal health.

***Projecting Reserves***

County offices continue to reinforce the need for district to maintain healthy reserves. The experience of the past six years has clearly demonstrated the minimum reserve levels are not sufficient to protect educational programs from severe disruption or an economic downturn. The typical 3-4% reserve minimum is likely not sufficient. Recognizing their duty to maintain fiscal solvency, many districts have established reserve policies calling for higher than minimum reserves. The adequacy of a reserve level should be assessed based on the district’s own specific circumstances but there are models available for baseline consideration. Examples include:

- The Government Finance Officers Association (GFOA) recommends reserves equal to two months of average general fund operating expenditures, or about 17%.
- Rating agencies typically assess the adequacy of a district’s reserves by comparing them to statewide averages, which have hovered around 15% for California unified school districts in recent years.
- The Fiscal Crisis and Management Assistance Team (FCMAT) emphasizes the need to assess the minimum reserve as not only fund balance but also actual cash on hand.
- There are many benefits to having higher than minimum reserves including:
  - Financial flexibility to absorb unanticipated expenditures without significant disruption to educational programs.
  - Protection against exposure to significant one-time outlays such as disasters, lawsuits, or material audit findings.
  - Protection against the volatility of state revenues.
  - Protection against the volatility of property tax revenues for basic aid districts.
  - Cash management / avoiding the cost of borrowing cash.
  - Protection against declining enrollment.
  - Protection against the expiration of parcel taxes.
  - Protection to cover increases in fixed and statutory costs.
  - Financial flexibility to shift resources as priorities set through the Local Control Accountability Plan (LCAP) process change.
  - Planning for major projects such as information technology upgrades or deferred maintenance.

The District is able to maintain its minimum mandated reserve for economic uncertainty of 4% in the current and two subsequent years based on current revenue and expenditure assumptions. However, the minimum reserve of 4% does not cover one month's operating expenses, let alone one month's payroll. Districts at the minimum level of reserves are vulnerable to any unanticipated financial developments. This is now particularly relevant in the light of some of the significant and major obligations that are currently facing school districts, including but not limited to increased contribution rates for CalSTRS and CalPERS, and increased costs for health care as a result of the Affordable Care Act. Additionally, with the LCFF implementation, the gap percentage funding is directly tied to the state’s ongoing ability to fund the LCFF through Proposition 98 growth. There are also other benefits to carrying higher than minimum reserves. These include:

- Financial flexibility to absorb unanticipated expenditures without significant disruption to educational programs
- Protection against exposure to significant one-time outlays such as disasters, lawsuits, or material audit findings
- Protection against the volatility of state revenues
- Cash management / avoiding the cost of borrowing for cash flow purposes
- Protection against declining enrollment
- Protection against the expiration of parcel taxes

Most importantly, by providing a buffer from volatile state revenues, maintaining higher than minimum reserves creates a more stable educational environment for students.